

Message Text

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PAGE 01 COLOMB 01250 171143Z
ACTION AID-59

INFO OCT-01 NEA-10 ISO-00 EB-08 L-03 SP-02 SS-15
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FM AMEMBASSY COLOMBO
TO SECSTATE WASHDC PRIORITY 9825
INFO AMEMBASSY NEW DELHI PRIORITY

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DEPT PASS USDA FOR PL 480 TITLE I COORDINATOR NORTON;

NEW DELHI FOR AGATT

E.O. 11652: N/A
TAGS: EAGR, EAIR, CE
SUBJECT: PL 480 TITLE I AMENDMENT

REF: (A) STATE 068442, (B) COLOMBO 1057

1. WITH REGARD TO PARA 3, REFTEL A, THE NEGOTIATING MINUTES
OF THE FY 1978 AGREEMENT CONTAINED THE FOLLOWING STATEMENT:
(SEE PARA 8 OF LETTER ENCLOSED WITH COLOMBO A-09, JANUARY 10, 1978):

QUOTE: WHILE THE EMBASSY HAS MADE A PRELIMINARY
DETERMINATION THAT DISTRIBUTION OF THE COMMODITY PROVIDED
UNDER THE AGREEMENT WOULD NOT BE A SIGNIFICANT DISINCENTIVE
TO THE DOMESTIC PRODUCTION OF RICE, THE SITUATION WITH
REGARD TO OTHER POTENTIAL WHEAT SUBSTITUTION IS NOT CLEAR.
AS EMPIRICAL EVIDENCE ON THE DISINCENTIVE EFFECTS OF
CONCESSIONAL FOOD IMPORTS ON DOMESTIC PRODUCTION IS SCARCE,
THE GOVERNMENT OF SRI LANKA AGREED TO COMMISSION A DETAILED
STUDY OF THIS SUBJECT. UNQUOTE.

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2. THE LETTER FROM FINANCE SECRETARY JAYAWARDENE TO
THE CENTRAL BANK (SEE PARA 5, REFTEL B), REQUESTS
THAT THE PRELIMINARY RESULTS OF THE DISINCENTIVE STUDY BE
AVAILABLE BY OCTOBER 1978. GIVEN THE ABOVE, IS IT
REALLY NECESSARY TO COVER THIS GROUND AGAIN IN THE
AMENDMENT NEGOTIATIONS?

3. THE EMBASSY RECOMMENDS THAT THE AGREED MINUTES OF THE AMENDMENT NEGOTIATIONS SHOULD NOT RPT NOT CONTAIN ANY REFERENCE TO THE FLOUR/RICE PRICE RELATIONSHIP AS INSTRUCTED IN PARA A (2), REFTEL A. AS POINTED OUT IN REFTEL B, THE GOVERNMENT OF SRI LANKA (GSL) HAS GIVEN US VERY REASON TO BELIEVE THAT THE PRICE OF FLOUR WILL BE RASIED TO AT LEAST ONE RUPEE A POUND BY THE END OF APRIL,AT THE LATEST.THIS INTENDED ACTION HAS ALREADY BEEN ATTACKED BY THE LEFTIST PRESS WHICH PUTS THE BLAME ON THE INTERNATIONAL MONETARY FUND(IMF). WE HAVE EXPRESSED OUR CONCERNS UABOUT THE PRESENT PRICE RELATIONSHIP VERBALLY TO SENIRO GSL OFFICIALS,BUT WE SEE NO REASON TO PUT OUR VIEWS IN WRITING AND THEREBY PLACE OURSELVES IN A POSITION OF SHARING THE BLAME WITH THE IMF. THE INCREASE IN THE PRICE OF FLOUR IS LIKELY TO GENERATE A MORE SEVERE POLITICAL BACKLASH THAN DID THE RICE AND SUGAR RATION CUTBACK. WE MUCH PREFER TO LET THE IMF TAKE THE HEAT ON THIS ONE.

4. ACTION REQUESTED. PLEASE ADVISE IF THERE WILL BE ANY OBJECTIONS TO THE EMBASSY OMITTING PARAS 3 AND 4(2) REQUIRING GSL STATEMENTS ON THE DISINCENTIVE STUDY AND THE FLOUR/RICE PRICE RELATIONSHIP FROM REFTEL A INSTRUCTIONS.

WRIGGINS

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